AUDIT REPORT

Tennessee Wildlife Resources Agency

July 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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John G. Morgan
Comptroller

July 31, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Gary Myers, Executive Director
Tennessee Wildlife Resources Agency
Ellington Agricultural Center
Nashville, Tennessee 37204

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Wildlife Resources Agency for the period June 1, 2003, through June 30, 2006.

The review of internal control and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/th
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COMPTROLLER OF THE TREASURY
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July 14, 2006

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Wildlife Resources Agency for the period June 1, 2003, through June 30, 2006.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of internal control significant to the audit objectives and that we design the audit to provide reasonable assurance of the Tennessee Wildlife Resources Agency's compliance with laws, regulations, and provisions of contracts or grant agreements significant to the audit objectives. Management of the Tennessee Wildlife Resources Agency is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The agency's management has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the agency's internal control and instances of noncompliance to the Tennessee Wildlife Resources Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Wildlife Resources Agency
July 2007

AUDIT SCOPE

We have audited the Tennessee Wildlife Resources Agency for the period June 1, 2003, through June 30, 2006. Our audit scope included a review of internal control and compliance with policies, procedures, laws, and regulations in the areas of oversight and management of the agency, revenue, equipment, the Remote Easy Access License (REAL) system, federal grant compliance, and compliance with the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

AUDIT FINDINGS

The Tennessee Wildlife Resources Commission Does Not Have an Approved Audit Committee Charter as Required by State Law
The audit committee charter for the Tennessee Wildlife Resources Commission, which directs the Tennessee Wildlife Resources Agency, has not been approved by the Comptroller of the Treasury as required by state law because of the language used by the commission (page 5).

Management Has Not Assessed and Mitigated the Risks Associated With Inadequate Controls Over Equipment at TWRA, Increasing the Risk of Fraud*
The TWRA staff have not followed General Services' policies and procedures to surplus and dispose of equipment, have not added confiscated equipment to the Property of the State of Tennessee (POST) system, and have not properly updated POST for changes in critical equipment information. Furthermore, inventories were not

completed and returned to the Property Officer or the Department of Finance and Administration as required (page 16).

TWRA Management Did Not Have an Adequate Control Environment to Ensure Internal Controls Designed to Prevent or Detect TWRA Employees Abusing Sick Leave, Improperly Disposing of State Property, and Filing a False Invoice Resulting in Loss to the State
An internal investigation, initiated by an anonymous tip, discovered employees abusing sick leave to work on their supervisor's private residence, employees taking state property home for personal use, and an employee filing a false invoice (page 7).

TWRA Management Has Not Mitigated the Risk of Unauthorized Access to the Remote Easy Access License (REAL) System by Ensuring Requests for Access Were Completed
The agency does not maintain adequate documentation to identify the persons responsible for making REAL system access requests. This lack of documentation increases the risk that someone could inappropriately request and receive access to the system (page 24).

TWRA Management Has Not Mitigated the Risk of the Internal Auditor Being Influenced by Organizational Impairments to Independence
The Tennessee Wildlife Resources Agency's internal auditor reports directly to the Director of Planning and Federal Aid instead of reporting to top management (page 11).

TWRA Management Did Not Comply With All Provisions of the Department of Finance and Administration's Policy Concerning Grants Accounting**
Staff had not reported several grants and related expenditures on the State of Tennessee Accounting and Reporting System (STARS) Grant Activity Report. Therefore, the grant and expenditures were still not coded recorded correctly in STARS (page 27).

TWRA Has Not Mitigated the Risk of Failure to Collect All Lease Revenue by Maintaining Sufficient Documentation of Lease Payments, Adjustments, and Delinquency Information*
The agency's Revenue Division does not maintain subsidiary records for non-sharecrop leases and contracts, and is unable to reconcile payments received to the original agreements. TWRA staff failed to send past due lessees delinquent notices (page 14).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

AUDIT COMMITTEE SUBSEQUENTLY APPOINTED CHARTER APPROVED AFTER LATE SUBMISSION

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;

2. evaluating management's assessment of risk and the agency's system of internal controls;

3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;

4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;

5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and

6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

Subsequent to the completion of fieldwork, the Tennessee Wildlife Resources Commission created a three-member audit committee and developed and approved the audit committee charter. However, the audit committee charter was not approved by the Comptroller of the Treasury as noted in finding 1. In response to the finding, the audit committee charter was revised and resubmitted. It was approved on July 9, 2007.

In meeting their responsibilities, the audit committee should ensure that top management of the agency timely and effectively address the many weaknesses noted in this audit. The risk assessment to be performed and documented by top management should consider all other business risks and risks of fraud, waste, and abuse to the agency, in addition to those noted in this audit report.

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Tennessee Wildlife Resources Agency

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INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Wildlife Resources Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The mission of the Tennessee Wildlife Resources Agency (TWRA) is to preserve, conserve, manage, protect, and enhance the state's wildlife and the environment for the use, benefit, and enjoyment of the people of this state and its visitors. TWRA also manages certain non-game wildlife to ensure their continuation. Additionally, the agency is responsible for promoting boating safety in Tennessee.

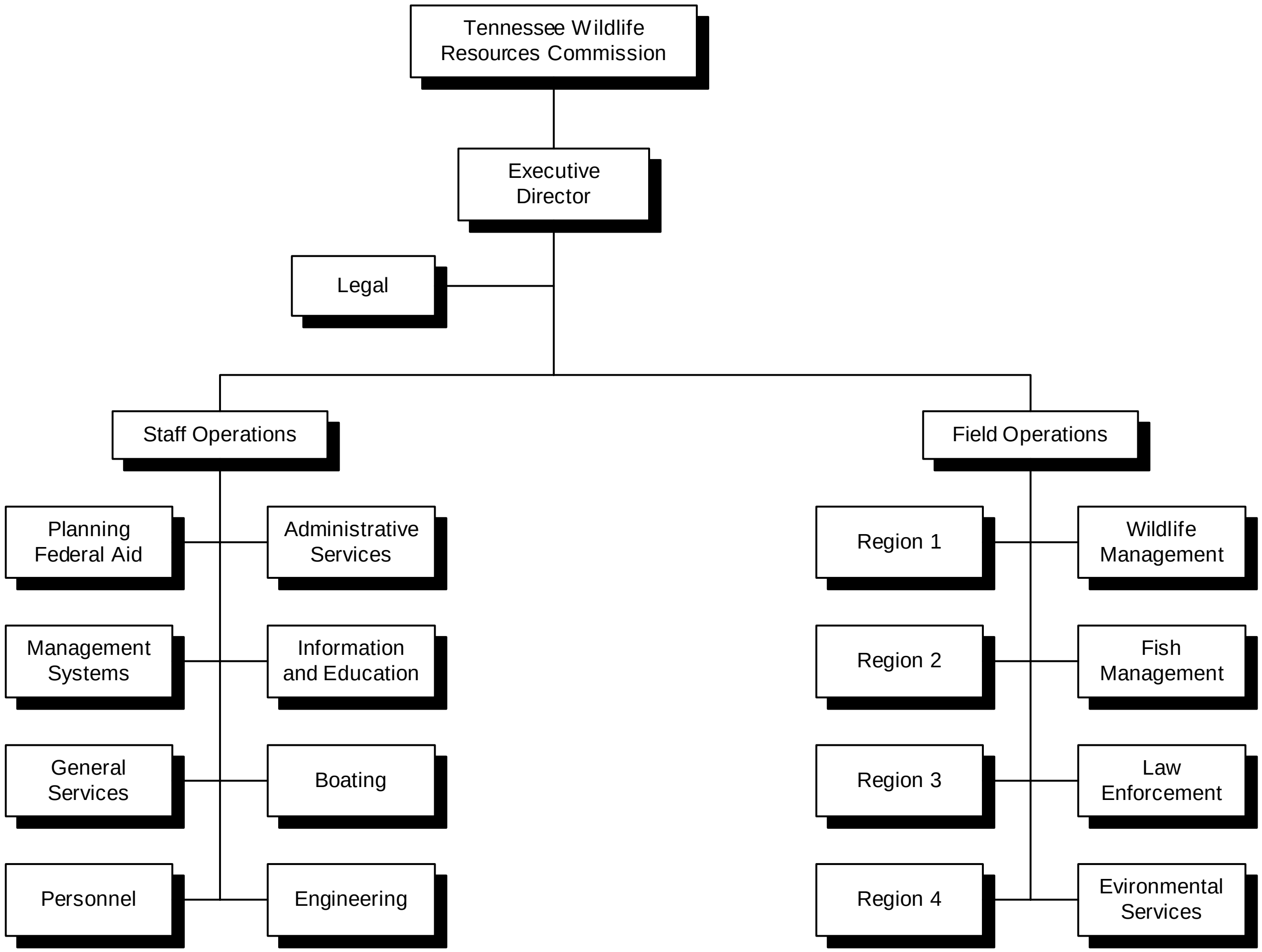
In order to fulfill its mission, the agency is governed by the Tennessee Wildlife Resources Commission. The 13-member commission consists of the Commissioner of Environment and Conservation, the Commissioner of Agriculture, nine members appointed by the Governor, one member appointed by the Speaker of the House, and one member appointed by the Speaker of the Senate. Daily operations are performed through two primary areas: staff operations and field operations. The major functions of TWRA include law enforcement; operation of lakes, hatcheries, and management areas; information/education; boating and hunter safety; public information; and habitat protection.

TWRA is self-supporting, financed by revenues from the sale of hunting and fishing licenses, boating and other permits, and fines assessed for the violation of game and fishing laws. The agency also receives an apportionment of federal taxes levied on the sale of hunting and fishing equipment under the provisions of the Federal Aid in Wildlife Restoration and Federal Aid in Sport Fish Restoration Acts.

The Tennessee Wildlife Resources Agency and Boating Safety each operate with a revolving fund. The reserve account balances are amounts of revenues exceeding expenditures. The balances are carried forward every year in the reserve accounts and do not revert to the general fund.

An organization chart of the agency is on the following page.

Tennessee Wildlife Resources Agency
Organizational Chart



AUDIT SCOPE

We have audited the Tennessee Wildlife Resources Agency for the period June 1, 2003, through June 30, 2006. Our audit scope included a review of internal control and compliance with policies, procedures, laws, and regulations in the areas of oversight and management of the agency, revenue, equipment, the Remote Easy Access License (REAL) system, federal grant compliance, and compliance with the Financial Integrity Act. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain state contracts; participating in the negotiation and procurement of services for the state; and providing support staff to various legislative committees and commissions.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Wildlife Resources Agency filed its report with the Department of Audit on December 19, 2003. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Tennessee Wildlife Resources Agency has corrected the previous audit finding concerning controls over cash receipts for the Managed Quota Hunts Division.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning subsidiary records for lease agreements, controls over equipment, and compliance with Department of Finance and Administration Policy 20. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

OVERSIGHT AND MANAGEMENT OF THE AGENCY

Our primary objective was to evaluate the control environment of the agency. Top management is responsible for establishing a comprehensive framework of internal control. This control framework must possess five essential elements: a favorable control environment; continuing assessment of risk; provision for the design, implementation, and maintenance of effective control-related policies and procedures; provision for the effective communication of information; and provision for management's ongoing monitoring of the effectiveness of control-related polices and procedures, as well as the resolution of potential deficiencies identified by management's risk assessment process.

We reviewed management's control environment and discussed internal control issues with the audit committee, top management, and staff of the agency. We also discussed the agency's compliance with policies, procedures, laws, and regulations. One specific objective was to review the audit committee charter for the Tennessee Wildlife Resources Commission to determine if the proper requirements were met and whether the charter was approved by the Comptroller of the Treasury. We obtained a copy of the draft charter and reviewed it for the necessary requirements. As a result of our reviews and discussions, we found that the agency's audit committee's draft charter did not meet the minimum necessary requirements, and thus the charter has not been approved by the Comptroller of the Treasury. See Finding 1. During our audit fieldwork we were informed of an internal agency investigation which identified a lack of controls relating to sick leave, disposal of state property, and falsification of an invoice for services. See the details of the internal investigation in finding 2. Also, our specific objectives were to determine whether the agency's internal auditor was organizationally independent. Based on our discussion with agency management and the internal auditor, we found that the internal auditor lacks the appropriate organizational independence which is critical to ensure transparency and objectivity necessary to fulfill the internal auditor's responsibility and to assist management in developing a strong internal control framework. See Finding 3.

1. **The Tennessee Wildlife Resources Commission does not have an approved audit committee charter as required by state law**

Finding

The audit committee charter for the Tennessee Wildlife Resources Commission, which directs the Tennessee Wildlife Resources Agency, has not been approved by the Comptroller of the Treasury as required by state law because of the language used by the commission. Section 4-35-103, *Tennessee Code Annotated*, states, "The comptroller of the treasury shall establish guidelines for creation of an audit committee charter and shall review the proposed charter to determine whether the charter contains the minimum necessary requirements." It was determined that the charter submitted by the Tennessee Wildlife Resources Commission's audit committee was not in compliance with the requirements.

The Comptroller's Guidelines for Audit Committee Charters require that, "The members of the audit committee should be independent from any appearance of other interests that are in conflict with their duties as members of the audit committee." The audit committee submitted a draft charter which addresses conflicts of interest but not the appearance of conflicts of interest. The audit committee charter states, "The members of the audit committee shall be independent of any conflicts of interest in regards to their duties as members of the audit committee." The appearance is important because a member might evaluate what appears to be a conflict of interests and believe in his or her mind that he or she can act objectively. However, others looking at the situation might reasonably believe that the member has a conflict and cannot act objectively.

Additionally, the Comptroller's Guidelines for Audit Committee Charters require that, "The board should nominate the committee and the chair of the audit committee." The draft charter states, "The Chairman of the Commission shall appoint the chair and members to the audit committee . . ." We believe the entire commission rather than just the chairman should have a say in the composition of the audit committee. We believe that it would be acceptable for the chairman to appoint the chair and the members of the audit committee subject to approval of the commission.

Recommendation

The Tennessee Wildlife Resources Commission's audit committee should finalize its audit committee charter and include the wording, "The members of the audit committee should be independent from any appearance of other interests that are in conflict with their duties as members of the audit committee." The audit committee should also revise the charter to allow the entire commission the opportunity to approve the members of the committee. Once these matters are addressed, the charter should be resubmitted for approval by the Comptroller of the Treasury as required by state law.

Management's Comment

We concur. The TWRC adopted the suggested changes to the audit committee charter and will resubmit to the comptroller for review.

2. TWRA management did not have an adequate control environment to ensure that internal controls designed to prevent or detect TWRA employees abusing sick leave, improperly disposing of state property, and filing a false invoice resulting in loss to the state operated effectively

Finding

An internal investigation, initiated by an anonymous tip, discovered employees abusing sick leave to work on their supervisor's private residence, employees taking state property home for personal use, and an employee filing a false invoice.

Abuse of Sick Leave

The internal investigation revealed that a west Tennessee Wildlife Management Area equipment supervisor authorized and approved two of his employees to take three days of sick leave to work for him at his private residence. The two equipment operators helped their supervisor construct a shed on the supervisor's private property. According to Department of Personnel Rule 1120-6-.12(1), "Use of Sick Leave grants an eligible employee sick leave for any of the following reasons: personal illness, disability due to accident, exposure to a contagious disease, medical and dental appointments, illness or death in the immediate family, maternity, and adoption." The use of sick leave for any other reason than those listed above is clearly a violation and abuse of the sick leave rule. According to Department of Personnel Rule 1120-6-.02, "it is the responsibility of the employee's immediate supervisor to determine the type of leave to be charged for each absence, and to properly record and report it." The supervisor violated the state's personnel rules by not properly recording or reporting the type of leave taken, but most importantly, his deliberate violation the rules was for his own personal gain.

Personal Use of State Equipment

The investigation also revealed that the same area equipment supervisor mentioned above also admitted giving state property to one of the equipment operators that worked at his private residence. This property included a large engine from a dragline crane, two used tires, and an oil burning stove. The same supervisor admitted giving other employees metal shelving and taking some of the shelves home himself. The supervisor also admitted building a steel welding table that he took home, and borrowing the agency's four-wheeler for personal use.

According to the report, one of the equipment operators admitted receiving the items from his immediate supervisor (as noted above) and also received a diesel replacement pump from a wildlife manager. The equipment operator also admitted abusing his sick leave. In addition, this equipment operator obtained and kept for his personal use a state-owned equipment trailer from a private citizen who had borrowed it from a recently retired TWRA base supervisor. The equipment operator made several improvements to the state trailer while it was at his private residence. The improvements were made to enable the trailer to be used for the equipment operator's private business.

Rules of the Department of General Services Division of State Personal Property Utilization, Chapter 0690-2-1-.09, "Accountability for Surplus Personal Property," states, "No state owned personal property within any State department or agency. . . shall be disposed of, transferred, assigned, or entrusted to any other department or agency or official thereof without the written approval of the Director of State Personal Property Utilization Division." The actions of the equipment supervisor and the equipment operator clearly violate the Department of General Services' policies and procedures regarding the proper disposition of all state-owned property and represent gross misconduct. Two other employees in supervisory positions did not follow the policies and procedures because they did not report the equipment missing upon discovering its disappearance and they loaned state-owned property to individuals not employed by the state.

Falsification of Invoice

The same equipment operator involved in the sick leave abuse and the improper receipt and retention of state property also owns and operates a welding company. The internal investigation found an invoice that had been submitted to TWRA to request payment of services related to welding repairs of a gate; however, the services had apparently involved cleaning out a fence row. No one has admitted to knowingly requesting the invoice be prepared for welding instead of actual services performed in cleaning the fence row.

Personnel Actions

Department of Personnel Rule 1120-10-.06 gives examples of disciplinary offenses including several examples of causes to be considered for disciplinary action. Included among them are careless, negligent, or improper use of state property or equipment; habitual improper use of sick leave privileges; gross misconduct or conduct unbecoming an employee in the state service; willful abuse or misappropriation of state funds, property or equipment; falsification of an official document relating to or affecting employment, and damage or destruction of state property. Rule 1120-10-.02 states, "A career employee may be warned, suspended, demoted or dismissed by his appointing authority whenever just or legal cause exists. The degree and kind of action is at the discretion of the appointing authority."

At the conclusion of the internal investigation, TWRA management suspended the supervisor who inappropriately approved sick leave and gave away state property for 10 days without pay since this was a first offense. Management imposed a 5-day suspension on the equipment operator who received and repaired state property for personal use, abused sick leave, and falsified an invoice. Also, management issued an oral warning to the Assistant Chief of Heavy Equipment who failed to properly supervise and train his staff in the proper disposal of state equipment and failed to report the missing property. The other equipment operator who abused sick leave received a written warning. A written warning was also given to two wildlife technicians, one that requested the fence row to be cleared and one that approved the invoice.

Recommendation

To mitigate the risk of future occurrences, the executive director should ensure all employees know the policies and procedures for the proper use and disposal of all state-owned property. The executive director should also ensure all employees understand state personnel policies and procedures pertaining to leave. All invoices should be scrutinized and reviewed by supervisors for propriety. The executive director should also ensure employees in supervisory positions adequately supervise and monitor their staff.

The law clearly and unambiguously establishes the expectation that all state agencies will comply with property disposal and personnel rules regarding leave. Furthermore, the aforementioned actions of waste and abuse and the agency's lack of controls over equipment noted in finding 5 are clear indications that the executive director must take immediate and decisive actions to prevent future occurrences of fraud, waste, or abuse. Top management should establish a clear expectation to all employees that property disposal and personnel matters be made in compliance with relevant laws, and with the rules and regulations promulgated by the state agencies charged with administering and overseeing property disposal and personnel matters.

Management should ensure that other risks are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Internal Audit Division may assist in management's efforts; however, the ultimate responsibility is with management. Furthermore, effective internal controls are designed so that staff can reasonably identify internal control weaknesses and circumvention of controls during the ordinary course of performing their day-to-day activities. Hence, internal audit should not be expected to serve as the monitors of the internal controls. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and management should take prompt action should exceptions occur.

Management's Comment

We do not concur. Adequate internal controls do exist to detect improper use of sick leave along with the other events referenced in the finding. TWRA's internal controls are guided by the same established procedures as other State Agencies. TWRA acted quickly through our internal investigator once the information was anonymously reported. Disciplinary action was imposed on all individuals found to have been involved in the events listed in the finding.

TWRA would not, nor would any Department with field level employees, be able to immediately detect improper disposal of property and improper coding of leave. In many similar situations the misuse comes to the attention of management when reported by members of the workforce or public. This situation is no different. In this case the report was initially received by the Comptrollers Office; but in others, the Agency receives information directly. In all cases the established records provide access to documentation that our investigators or supervisors can quickly use to confirm or refute the reports.

The abuse of sick leave occurred as the result of a supervisor approving use of a leave type in violation of established regulations. Once this improper use was reported TWRA quickly addressed the violation and imposed disciplinary action.

TWRA has and will continue to better inform its employees of proper methods to dispose of miscellaneous items that were acquired with TWRA funds but not tagged as State Property. The Agency has had several conversations with the Division of Surplus Property regarding a listing of miscellaneous property items and proper methods of disposal. This information has been shared with employees. Please see our response to finding # 5.

The individual who was a TOPS vendor was only on TOPS for the purpose of welding. If other activities had been listed initially this would have been a permissible charge. We have cautioned our employees to assure all services, including potential service, are listed.

Rebuttal

Management's statement that, "Adequate internal controls do exist to detect improper use of sick leave along with the other events referenced in the finding" implies that management identified the issues noted as a result of having adequate controls. However, as stated in the finding, it was an anonymous tip and management's subsequent follow-up that disclosed the abuses of sick leave and state equipment and the falsified invoice. Also according to management's comments, "TWRA's internal controls are guided by the same established procedures as other state agencies." However, as noted in this finding and in finding 5, the agency failed to comply with the state's established procedures for equipment management and control.

Furthermore, TWRA's operating environment relative to equipment is not typical of most state agencies. Not only are TWRA's operations highly decentralized, much of its equipment is located in remote areas of the state and is not stored indoors or normally used on a routine basis. As a result, the agency's risk for equipment misappropriations to occur and go undetected is greater than the risk at most state agencies. Therefore, more stringent internal controls are required to mitigate these risks. Two of the basic objectives of internal controls are to prevent and detect inappropriate activities like those noted in the finding. Management's comment focuses on its inability to immediately detect the cited occurrences, yet provides no evidence of preventive controls either. One control to prevent future occurrences is management's disciplinary actions on violations such as these. The internal investigation recommended severe punishments for those involved, including termination for one employee. However, TWRA management chose not to follow the recommendation and imposed lesser degrees of punishment to the employees involved.

Management's response appears to condone the falsification of the invoice in order to facilitate payment. If the agency was complicit with the falsification of the invoice in order to facilitate payment in this instance, it is another indication of management's disregard of established internal control procedures.

3. TWRA management has not mitigated the risk of the internal auditor being influenced by organizational impairments to independence

Finding

The Tennessee Wildlife Resources Agency's internal auditor is not organizationally independent based on the current organization structure. Specifically the internal auditor reports directly to the Director of Planning and Federal Aid instead of reporting to top management.

Section 3.27 of *Government Auditing Standards* states:

> . . . A government internal audit organization can be presumed to be free from organizational impairments to independence when reporting internally to management if the head of the audit organization meets all of the following criteria:
>
> a. accountable to the head or deputy head of the government entity,
>
> b. required to report the results of the audit organization's work to the head or deputy head of the government entity, and
>
> c. located organizationally outside the staff or line management function of the unit under audit.

Furthermore, the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* require that the chief audit executive report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. To achieve necessary independence, best practices suggest that the internal auditor report directly to the audit committee or its equivalent. For day to day administrative purposes, the internal auditor should report to the most senior executive of the organization.

Based on our discussions with the Executive Director, the internal auditor submitted audit reports to him; however, the internal auditor reported on a daily basis to the Director of Planning and Federal Aid, who was also responsible for evaluating her performance. While the internal auditor's responsibilities included routine audit work, much of her responsibilities focused on preparing documentation for TWRA's Federal Aid program grant reports which should not be an internal audit function. Since the internal auditor reported neither to the Executive Director nor the audit committee, but rather to a program director, the auditor lacked organizational independence, a key element of an effective internal audit function. Although the internal auditor has not performed any audits on the Federal Aid Office, any such audits requested by management in this area would be impaired due to the internal auditor's involvement in report preparation and lack of organizational independence.

Recommendation

TWRA's board of directors, the audit committee, and the Executive Director should analyze the agency's organizational structure and make necessary changes to ensure that the Internal Auditor can achieve the independence necessary to effectively assess the agency's internal control, risk management, and governance process. The Internal Auditor should be required to report results of internal audit work directly to the audit committee. For day to day administrative purposes, the internal auditor should report to the Executive Director.

Management's Comment

We concur that reporting directly to the Director would be an ideal situation if the Director were able to dedicate a sufficient portion of his time to daily supervision of the auditor. However, for efficiency, the auditor will continue to be supervised in the existing work unit. The Director's staff is comprised of executive grade positions. The auditor, a civil service class position; because of the organizational structure, is supervised by one of the executive grade positions. Internal audit reports and findings are sent directly to the Director's office and the TWRC audit committee chairman.

Auditor's Comment

The agency's current organizational structure is not only less than ideal, it is contrary to the independence standards promulgated by the Institute of Internal Auditors and *Government Auditing Standards*. The agency and its audit committee should ensure that there are no barriers, organizationally or otherwise, that would restrict or impair the internal auditor's ability to conduct audits and report the results. Furthermore, such impairments may deprive the agency and its audit committee opportunities to gain efficiency, increase effectiveness, and identify and prevent fraud, waste and abuse.

REVENUE

The objectives of our review of cash receipting and lease revenue controls and procedures were to determine whether

- controls and procedures over cash receipting and lease revenue were adequate;
- lease revenue transactions were recorded accurately in the accounting records and were properly documented;
- lease payments collected during the audit period were deposited timely and intact and accounted for in the appropriate fiscal year;

- lessees were properly billed and revenue collected was recorded at the correct amount;

- financial records were reconciled to the State of Tennessee Accounting and Reporting System (STARS);

- lease subsidiary accounts were properly maintained; and

- lessees who were delinquent in the lease payments were sent notices, and related accounts receivable were aged.

We interviewed key personnel to gain an understanding of the agency's procedures and controls over cash receipting and lease revenue. We tested all non-sharecrop lease receipts during the audit period and observed related deposits and accounting records. Non-sharecrop leases consist of housing permits, property rental, and cellular towers. In addition, we tested a nonstatistical sample of sharecrop lease receipts to ensure revenue transactions were recorded accurately and properly documented. We tested lease payments collected for the non-sharecrop leases and lease payments collected for a sample of sharecrop leases to ensure deposits were made timely and intact. We also tested deposits at year-end and during the audit period, to ensure deposits were made in the appropriate fiscal year. We also tested non-sharecrop leases and sharecrop leases to ensure lessees were billed and revenue was recorded at the correct amount. We reviewed the reconciliations of revenue records to STARS. We tested the population of non-sharecrop lease agreements and a statistical sample of sharecrop lease agreements during the audit period to ensure subsidiary accounts were maintained, delinquent accounts were sent notices and, if applicable, accounts receivable aged.

Based on our observation of controls and procedures over cash receipting and lease revenue, we determined controls and procedures were inadequate. See finding 4. Through our testwork of lease receipts and lease agreements, we determined that the agency's lease revenue transactions were recorded accurately in the accounting records and were properly documented. Lease payments collected during the audit period were deposited timely and intact and accounted for in the appropriate fiscal year. We determined lessees were properly billed and revenue collected was recorded at the correct amount. Through our testwork we found the agency does reconcile financial records to STARS; however the agency does not reconcile lease agreements to receipts for non-sharecrop contracts and leases, as reported in the finding below. We determined lease subsidiary accounts were not properly maintained for non-sharecrop leases. Delinquencies in lease payments could not be determined and aging was not performed due to the absence of reconciliations of subsidiary accounts.

4. By not maintaining sufficient documentation of lease payments, adjustments, and delinquency information, TWRA has not mitigated the risk of failing to collect all lease revenue

Finding

Tennessee Wildlife Resources Agency (TWRA) has over 200 lease agreements for the use of its land and/or property. The agency's lease agreements include sharecropping leases, housing permits, property leases, and cellular tower leases. Under these agreements lessees pay TWRA with cash, services, or a combination of both. For example lessees may leave a percentage of crops for the wildlife and/or perform maintenance to TWRA-owned land in lieu of cash payments. Furthermore, these lease agreements also allow area wildlife managers to adjust the lease payment amounts. However, the agency's Revenue Division does not maintain subsidiary records for non-sharecrop leases and contracts; therefore, the agency is unable to reconcile payments received to the original agreements. In addition, the Revenue Division maintains subsidiary records for sharecrop leases.

Our testwork also revealed the Revenue Division did not reconcile lease agreements to payment receipts for non-sharecrop leases and contracts. Non-sharecrop lease agreements consist of housing permits, property rental, and cellular towers. We reviewed all 12 of the non-sharecrop leases in effect during the audit period. Based on our review of invoices, deposit records, and internal reports, we found that two of the lessees failed to pay a total of three $100 monthly lease payments. Although the lessees were delinquent, TWRA staff failed to send lessees delinquent notices.

We also tested a sample of 30 sharecrop lease agreements from a list provided by the agency. The Chief of Real Estate and Forestry could not provide any documentation for 2 of the 30 leases (7%) we selected for testing and the agency's central office had no records for these two leases. There were no lease documents and nothing was on file to indicate that there were any payments received, any delinquent notices sent, or any legal action taken against the lessees. According to the Chief of Real Estate and Forestry, he has not been able to get these files from his area managers. He also thinks his previous secretary may have misplaced them. In addition we found problems with 5 of the 28 remaining leases (18%) in our sample.

- For 2 of the 28 leases, wildlife managers made apparent adjustments to the payment terms of the contracts; however, there was no documentation to support the nature of or reasons for the adjustments.

- For another lease, the Revenue Division could not provide evidence of payments, delinquent notices sent, documentation of receivables, or that legal action was taken against the lessee.

- Finally, there was no evidence that the Real Estate and Forestry Division had reconciled services performed with the lease terms for two other leases tested.

Since the agency does not maintain subsidiary records for non-sharecrop leases and contracts, payments cannot be reconciled to the original agreement. This makes it difficult for management to determine possible delinquent accounts. According to the Wildlife Manager V, the discrepancies noted in the sharecrop lease testwork are mostly attributable to the area managers not getting the requested documentation to the central office. Because TWRA has not maintained sufficient documentation of lease payments, adjustments, and delinquent information, there is an increased risk that the agency is not collecting the proper revenue due from state owned lands.

Recommendation

The Division Directors of the Revenue Division and the Real Estate and Forestry Division should ensure staff maintain subsidiary records and reconcile lease agreements to payment receipts for non-sharecrop leases and contracts. The Revenue Division staff should send delinquency notices for overdue payments, set up receivables for accounts not paid, and pursue legal action against unpaid leases. The Real Estate and Forestry Division staff should safeguard agency documents and ensure against their loss. Area managers must provide the central office with documentation concerning all of their lease agreements and documentation for any adjustments or changes to the stipulated payments in the contracts. Central office personnel should require adequate support for any adjustments to payment terms and should perform reconciliations between lease payment receipts and lease agreements for non-sharecrop leases and contracts.

Management should ensure that other risks are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and management should take prompt action should exceptions occur.

Management's Comment

We concur. Staff has already taken steps to adopt several of the recommendations including the sending of delinquency notices for late payments to lease holders, pursuit of legal actions against unpaid leases, and personnel change for the oversight of lease program to insure that documents are accounted for and managed. Staff met with each field manager on documents required from them for sharecrop lease program, which included documents that must be sent to Central Office on any amendments to lease specifications.

Staff is reconciling payments between contracted amount and cash receiving records. Discrepancies are identified and the manager is questioned for difference in payment received versus contracted amount. If change in contract is justified, a document justifying the amendment to the contract is requested.

Payment due dates are included in Field Order to field staff. Records are checked immediate following due date for any delinquent payments. Staff is also presenting an annual report to the State Building Commission (SBC) on compliance to the procedure adopted by the SBC.

EQUIPMENT

The objectives of our review of equipment controls and procedures were to determine whether

- controls and procedures for safeguarding and accounting for equipment were adequate;
- leased equipment from the Office For Information Resources (OIR) was inventoried on an annual basis, and the results of those inventories were reported to the Department of Finance and Administration;
- equipment was correctly recorded in the Property of the State of Tennessee (POST);
- equipment lost or stolen during the audit period was reported timely to the Comptroller's Office and timely removed from POST;
- procedures over surplus property were followed;
- the controls and procedures over seized assets were adequate; and
- employee access to POST was appropriate.

We interviewed key personnel to gain an understanding of the department's procedures and controls for safeguarding and accounting for equipment. We reviewed supporting documentation for these procedures and controls. We also obtained an independent confirmation from the Department of Finance and Administration to determine if the agency had conducted and documented an annual inventory of the equipment leased from the Office For Information Resources at the Department of Finance and Administration and ensured the results of the inventories were reported. In addition, we tested three nonstatistical samples of equipment items and assessed the accuracy of the information recorded in POST. We tested the population of equipment lost or stolen during the audit period to ensure that the items were properly reported to the Comptroller of the Treasury's office and removed from POST timely. We interviewed key personnel and discussed with management the procedures over surplus property. We reviewed the controls and policies and procedures over seized assets to determine whether they were adequate. Also, we reviewed the list of employees with access to POST to ensure that only those employees with need based on job duties had access.

Based on our testwork, the controls and procedures over equipment do not appear adequate. See finding 5. The inventory results for leased equipment was not properly reported to the Office For Information Resources within the Department of Finance and Administration. Equipment was not always recorded accurately in POST. Equipment lost or stolen during the audit period was not timely reported to the Comptroller's Office, but was removed from POST properly. Procedures over surplus property were not followed. Controls over seized assets were not adequate as reported in the finding below. However, we did find that employees had proper access to POST.

5. Management has not assessed and mitigated the risks associated with inadequate controls over equipment at TWRA, increasing the risk of fraud

Finding

The management of TWRA has not ensured that the agency has adequate controls in place to prevent fraud and misuse of state property. The continuous lack of control over equipment has lead to personal use and abuse of state-owned equipment. See finding 2 of this report for details related to the agency's internal investigation of equipment abuse. Based on our current testwork we found the following weaknesses:

- The TWRA staff have not followed General Services' policies and procedures to surplus and dispose of equipment purchased with state and federal funds;
- Staff have not added confiscated equipment to the Property of the State of Tennessee system (POST);
- Staff have not properly updated POST for changes in critical equipment information including serial numbers, state tag numbers, costs, locations, dates of acquisition, and funding sources.
- Inventories were not completed and returned to the Property Officer or the Department of Finance and Administration as required.

Based on our review of the agency's lost and stolen equipment reports we found that TWRA had reported $36,889.94 in lost and/or stolen equipment items for the period March 2003 through April 2006. According to the Chief of Field Operations, he believes equipment items become lost during the surplus process. Since there are established policies and procedures governing the surplus of state equipment, these comments are indicative of the lack of proper controls and procedures for completing the surplus process.

Rules of the Department of General Services, Division of State Personal Property Utilizations, Chapter 0690-2-1-.09, "Accountability for Surplus Personal Property," states:

> (1) No state owned personal property within any State department or agency . . . shall be disposed of, transferred, assigned, or entrusted to any other department or

> agency or official thereof without the written approval of the Director of State Personal Property Utilization Division.
>
> (2) All personal property that has been declared to be surplus shall be reported immediately to the Commissioner, regardless of its value or condition, for disposal . . .

We also determined that donated equipment items for TWRA include items that are confiscated and items obtained through a judge's court-order to be used by TWRA for the Hunter Safety and Education programs. Based on our review of confiscated equipment we found that two weapons which TWRA obtained through a court-order to be used in the Hunter Safety program had not been added to POST by the property officer as required. One of the two weapons had been in the possession of TWRA since 1979.

We also performed sample testwork on 92 equipment items. We found that

- 18 items were recorded incorrectly in POST;

- 6 items were not properly tagged;

- 3 items were not listed in POST, including a TV/DVD/VCR combo which had been purchased using an open account at a local department store, circumventing the TOPS/POST procedures;

- one item had not been included in the annual inventory for the past two years; and

- 7 newly purchased items were not added to POST within 30 days of acquisition. The items were added between 35 and 77 days after acquisition, with an average delay of over 55 days.

We also reviewed a sample of equipment items reported as lost/stolen and determined that 19 of the 25 equipment items (76%) reported as lost or stolen to the property officer were not reported to the Comptroller's Office timely. In fact, the time between the initial discovery that the item was missing and the report to the Comptroller was over six months for 4 items and over one year for 14 additional items. The longest lapse was 32 months.

A review of the 2005 annual inventory revealed that three individuals in the central office did not complete and return their physical inventory to the property officer. The property officer sent reminder notices to the Regional Chiefs; however, no one above the property officer directed employees to complete and return the inventories. Also, TWRA's Information Technology had leased three items from the Office for Information Resources (OIR) and had not sent Finance and Administration an inventory for the prior two years. The items were not located by agency staff until after auditor inquiry.

Recommendation

The Executive Director should clearly establish the expectation that all TWRA employees follow all instructions from the Department of General Services regarding surplus property, confiscated equipment, POST, lost or stolen equipment, and inventory. General Services' policies and procedures should be followed for the proper disposal and surplusing of all state property. A survey of all TWRA areas should be performed to determine if there are items that need to be surplused.

The Executive Director should take steps to ensure the equipment data in the POST system are maintained properly and timely to ensure that the information is accurate and up-to-date. Confiscated equipment should be added to POST.

The Executive Director should ensure the property officer reports and investigates lost or stolen equipment immediately. Lost or stolen equipment should be reported to the Comptroller's Office promptly after an investigation and determination.

The Executive Director should instruct all employees responsible for annual physical inventory to promptly return completed forms to the property officer or OIR as required. Furthermore, the property officer should report all noncompliance with physical inventory procedures to the Executive Director, as well as any other noncompliance with General Services' policies and procedures regarding equipment.

Due to the lack of controls cited above and the equipment abuses cited in finding 2, the audit committee should focus its attention to ensure that the executive director takes the appropriate corrective action necessary to ensure that equipment is adequately safeguarded and used only for agency purposes. The committee should direct the internal auditor to perform assessments of the agency's corrective action.

Management should ensure that other risks are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and management should take prompt action should exceptions occur.

Management's Comment

A. We concur with the paragraph beginning with the statement: "The Executive Director should clearly establish the expectation that all TWRA employees follow all instructions from the Department of General Services regarding surplus property, confiscated equipment, POST, lost or stolen equipment, and inventory.

   The TWRA has had established procedures for staff to follow regarding surplus property, confiscated equipment, POST, lost or stolen equipment, and inventory."

Each TWRA employee has a handbook which is updated regularly. To mitigate the problems with the existing controls, the TWRA will promote the policy and procedures by placing them in the TWRA handbook in the form of an administrative directive from the Executive Directors office.

A survey of all TWRA divisions and regions will be conducted more often each year to determine the need for equipment surplus. Equipment will be surplused as needed rather than once per year. In addition, an exception list will be produced yearly sorted by employee and provided to each employee to aid in finding misplaced equipment.

In regard to TWRA issues with lost equipment, the following paragraph provides additional explanation:

The Department of General Services, surplus property division, up until a few years ago, was not always properly recording the surplus equipment that TWRA brought to their facility. Many times when TWRA delivered items to the surplus warehouse, the warehouse staff would receive the items without providing the proper paper work and signatures. Since the POST system uses a folder organization system, the Department of General Services staff could not always find the correct folder to post the incoming equipment to. The warehouse employees should have not accepted the equipment, but were just reinstating the tag number as if the item was not delivered at all. On the other hand TWRA should not have left the equipment without having the properly signed documentation.

B. We concur with the paragraph starting with: "The Executive Director should take steps to ensure the equipment data in the POST system are maintained properly and timely to ensure that the information is accurate and up-to-date." The following paragraph provides supporting information:

The TWRA Property staff person was moved under the Information Technology Division Chief in May 2006 shortly before the 2006 audit period began. Until the move was accomplished there was only one person to handle all TWRA property issues. The move was done to make available additional supervisory staff and data entry staff to help the one person assigned to the property function. Each of the data entry personnel was approved with POST permission levels by the Department of General Services to be in compliance with their established policies, rules and procedures.

TWRA has written procedures provided to each employee in regard to timeliness of inventory documentation submission and surplus policy and procedures. As stated in 5.A the inventory and surplus procedures will be added to the TWRA handbook.

TWRA concurs with the following recommendation stated in finding #5:

“Confiscated equipment should be added to POST.”

Previous Tennessee law provided that TWRA sell confiscated equipment on the steps of county court houses, but effective July 1, 2007, according to TCA 70-6-202, TWRA will enter confiscated equipment into the POST system and surplus this equipment through the Department of General Services.

SECTION 1. Tennessee Code Annotated, Section 70-6-201(c), is amended by deleting subdivision (2) in its entirety and by substituting instead the following new subdivision:

(2) When any item is declared contraband, the court shall enter an order accordingly and the contraband property shall be placed in the custody of the arresting officer, to be delivered to the executive director for disposition. The executive director shall destroy or cause to be destroyed any prohibited device or any device deemed by the executive director to be in a dangerous condition. Any contraband property that is not destroyed shall be transferred to the commissioner of general services to be sold at public sale in the manner authorized for surplus property by title 12, chapter 2.

SECTION 2. This act shall take effect July 1, 2007, the public welfare requiring it.

C. We concur with the paragraph beginning. “The Executive Director should ensure the property officer reports and investigates lost or stolen equipment immediately.”

Currently, TWRA investigates lost or stolen property and promptly reports it to our Executive Director’s staff. The form for this use is WR-0916, Equipment Loss Report and signed by the appropriate Assistant Director after the investigation. A letter is then written by the TWRA Fiscal Officer to the Comptroller’s Office describing the loss.

After the loss is reported to the Executive Director’s staff, a 3-month time limit will be placed on employees to look for any lost equipment. This statement will be added to the Administrative Directive in the Employee Handbook.

D. We concur. The following paragraph explains efforts to ensure every employee completes and submits his or her annual physical inventory documentation:

A complete review of each division’s and each region’s property exception lists was accomplished January, 2007 through March 2007 before the 2007 physical inventory period began in April, 2007. This was executed to locate as many items as possible on the exception list.

Each regional manager and division chief was contacted personally to ensure the physical inventory was completed in a timely manner. Every TWRA employee submitted an inventory in the 2007 cycle. This practice will be continued in the future to maintain this level of compliance.

After the physical inventory period ending June 30, 2007, another exception list will be produced and sent to each regional manager and division chief. They will be directed to find the inventory item, add it to the inventory form, or declare it lost or stolen using the proper documents.

To provide a convenience during the inventory process, each form used during the inventory process has been added to the TWRA intranet site. The following forms were updated to the site: WR-0916, Equipment Loss Report; WR-0918, Equipment Inventory Report; WR-0917, Surplus Equipment Inventory; WR-0919, Equipment Transfer Record.

Regarding OIR leased equipment inventory, TWRA IT division will comply with the OIR inventory procedure. Information from OIR, in regard to their leased equipment inventory process, is not readily available. TWRA is making attempts to find the OIR leased equipment inventory procedure from OIR staff.

E. We do not concur with: "Due to the lack of controls cited above." TWRA has had sufficient controls. Please refer to the Agency response to finding # 2.

   We do concur with the following: "the audit committee should focus its attention to ensure that the executive director takes the appropriate corrective action necessary to ensure that equipment is adequately safeguarded and used only for agency purposes."

   TWRA sees the need to communicate the currently held controls more effectively to the TWRA staff. A new TWRA administrative directive has been established to describe the proper use of state owned equipment. The proper use of equipment directive is placed in the TWRA handbook.

F. We concur with the paragraph which starts: "Management should ensure that other risks are adequately identified and assess in their documented risk assessment activities."

Rebuttal

It appears that management's only lack of concurrence with the finding is our statement that the items cited in the finding indicated a lack of controls. It is difficult to understand how management can assert that it had sufficient controls during the audit period when there were multiple violations of state policies noted in its equipment management, and employee abuses of state owned equipment occurred and were not detected by its controls.

REMOTE EASY ACCESS LICENSE (REAL) SYSTEM

The objectives of our review of the Remote Easy Access License (REAL) system controls and procedures were to determine whether

- application controls and procedures for the REAL system were adequate;
- the agency has a sufficient disaster recovery and contingency plan;
- proper backups were stored off-site;
- the agency has established procedures to prevent unauthorized access and to ensure terminated employees' access was removed from the REAL system;
- agent agreements were properly documented and approved;
- REAL revenue transactions were recorded accurately in the accounting records and were properly documented;
- REAL cash collections during the audit period were deposited timely and intact, and were accounted for in the appropriate fiscal year;
- REAL electronic transfer collections from agents collected during the audit period were properly transferred to agency accounts; and
- agents were sent notices when REAL revenue delinquencies related to failed electronic transfers occurred, and accounts receivable related to the delinquencies were aged.

We interviewed key personnel in order to determine if application controls and procedures for the REAL system were adequate. We discussed technical features of the REAL system with key Information System's personnel to gain an understanding of the agency's procedures and application controls. We reviewed the disaster recovery plan of the contractor and the agency's continuation of operations plan. We discussed proper backup and off-site storage procedures with Information System's personnel. We performed testwork to determine if terminated employees still had access to the REAL system. We discussed established procedures with Information System's security personnel to determine if the agency had proper security procedures to prevent unauthorized access or distribution. We tested a sample of agent agreements for proper documentation and approval. We tested a sample of wire type journal vouchers to determine whether electronic transfers of revenue transactions were recorded accurately and properly documented. We tested a sample of cash collections from REAL sales to determine whether they were recorded accurately, documented properly, and deposited timely. We tested electronic transfers to determine if amounts were properly transferred to agency accounts. We discussed and reviewed TWRA policies and procedures related to failed electronic transfer to determine whether delinquencies were aged and agents were notified of the delinquencies.

Based on our review and discussions with key personnel, we determined that the application controls of the REAL system were adequate. We determined the agency has a sufficient disaster recovery and contingency plan through the contractor of the REAL system. We determined the agency has proper backups stored off-site. As noted in the finding below, the agency did not document requests for TWRA employees to access the REAL system. We also observed significant conditions that violated best practices for information security controls during our audit field work. Based on testwork, we determined agent agreements were properly documented and approved. We also determined that REAL revenue transactions were recorded accurately in the accounting records and were properly documented. REAL cash collections during the audit period were deposited timely and intact, and accounted for in the appropriate fiscal year. We determined that agency staff properly utilized the REAL electronic transfers to transfer revenue collected from agents during the audit period to an agency account. In addition, we determined that failed electronic transfers were aged and agents were notified of delinquencies.

6. TWRA management has not mitigated the risk of unauthorized access to the REAL system by ensuring requests for access were completed

Finding

Information Systems personnel did not document its requests to Central Bank for TWRA employees to access the Remote Easy Access License (REAL) system, which the agency uses to collect most of its revenue for hunting and fishing licenses and boat registrations. The agency contracts with Central Bank and its wholly owned subsidiary, Central Technology Services (CTS), to obtain services for data capture and the processing of sportsman licenses through REAL. Sales of hunting and fishing licenses are made from input submitted to terminals at retailers throughout the state. These terminals are connected to the CTS computer system which captures the data, processes the licenses and tracks sales. This allows TWRA to track sales on a real-time basis and collect revenue from retailers on a timely basis. As part of the agreement, TWRA has the ability to access the data that is captured in the REAL system. Such data includes customer names, addresses, type of license or permit, date of sale, retailer, amount collected, etc.

According to the Information Systems Management *Procedures Manual*,

> Requests for REAL User IDs are to be emailed to the ISM [Information System Management] Analyst Supervisor. Each request will include the employee's full name and access level: inquiry, update or administrative permissions.
>
> The ISM Supervisor will enter the request using the security profile request form required by the REAL system administrators called POS Access Change Form.

According to TWRA personnel in Information Systems, the agency no longer sends POS Access Change Forms to CTS to document their requests for user access to the REAL system. Instead, agency employees make informal requests for employee access to the REAL system. Then, the agency's Programming Analyst Supervisor determines the employee's access level by job title and department, and enters the necessary information to create the new user ID in the REAL system. Furthermore, the agency does not maintain adequate documentation to identify the persons responsible for making the system access request. This lack of documentation increases the risk that someone could inappropriately request and receive access to the system.

The failure to prepare and maintain security maintenance forms increases the risk that persons other than management could inappropriately request and receive access to the system.

We also observed significant conditions that violated best practices for information security controls during our audit field work. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the state's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504 (i), *Tennessee Code Annotated*. We provided the agency with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

Information Systems management should utilize and maintain security maintenance forms to request access to the REAL system for TWRA employees, and maintain current records of all the names and level of access for all persons with REAL system active user IDs. Furthermore, the Information Systems Management *Procedures Manual* should be amended to specifically state who is authorized to submit the Requests for REAL User IDs, and this procedure should be strictly enforced.

Information Systems management should correct the significant conditions identified as control weaknesses. Management should ensure that risks such as these noted in this finding are adequately identified and assessed in their documented risk assessment activities. Management should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. Management should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and taking prompt action should exceptions occur.

Management's Comment

We do concur with: "This lack of documentation increases the risk that someone could inappropriately request and receive access to the system."

The requestor's emails were not filed by the IT staff. So to strengthen this process, in

July 2006, TWRA IT staff created a REAL Account Request form, WR-0909, which resides on the TWRA intranet web site. The form must be signed by the requestor and her/his supervisor before access will be granted. Email requests will no longer be allowed by the REAL system administrator unless accompanied by the REAL Account Request form. A paper copy of each request is kept on file in the IT Division. The IT Policy and Procedure manual has been updated to reflect these changes.

We concur with the paragraph beginning: "We also observed significant conditions that violated best practices for information security controls." These conditions have been reviewed and subsequently addressed.

GRANT COMPLIANCE
DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20

Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues," requires state agencies whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) to fully utilize STARS to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- grant awards were entered into STARS at the time the grant award notification was received;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the agency made drawdowns timely using the applicable STARS reports;
- the agency negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the agency utilized the appropriate STARS reports as a basis for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

We reviewed the applicable STARS grant tables and files to determine if the appropriate grant information was entered into the STARS Grant Control Table and related revenue and expenditure transactions were coded with the proper grant codes. We reviewed the STARS grant table and files to determine if grant awards were entered into the system at the time the grant award notification was received, appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method, and the agency made drawdowns timely using the applicable STARS reports. We reviewed the indirect cost recovery plan and drawdown documentation to determine if the agency negotiated an appropriate indirect cost recovery plan and indirect costs were included in the drawdowns. We reviewed the Schedules of Expenditures of Federal Awards for fiscal years ended June 30, 2005, and June 30, 2004, and the financial status reports submitted to the federal government, and determined that the agency used the appropriate STARS reports to prepare the federal reports.

Based on our review appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award. However, related expenditure transactions for several grants were not coded with the appropriate grant at the time the initial transaction was recorded. See finding 7. Based on our review, grant awards were entered into STARS at the time the grant award notification was received. Based on interviews with key personnel, it was noted that the agency does not use the STARS Labor Distribution System to redistribute payroll expenditures, as reported in the finding below. Based on discussion and walkthrough drawdowns were made timely using the applicable STARS reports. Our review found the agency negotiated an appropriate indirect cost recovery plan and indirect costs were included in drawdowns and the agency used the appropriate STARS reports to prepare the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

7. TWRA management did not comply with all provisions of the Department of Finance and Administration's policy concerning grants accounting

Finding

As noted in the prior audit, the Tennessee Wildlife Resources Agency (TWRA) did not comply with many of the provisions of Department of Finance and Administration Policy 20, "Recording of Federal Grant Expenditures and Revenues," as issued April 1991. In the prior audit, we noted that several grant expenditures were not coded and recorded correctly in STARS, that two grants that had expenditures in prior years were omitted on the Schedule of Expenditures of Federal Awards until the fiscal year ended June 30, 2002, and that the agency did not utilize the STARS Grant Activity Report for all grants as a basis for preparing the Schedules of Expenditures of Federal Awards. Management concurred with the prior finding and stated, "We will strive to utilize STARS as directed by Policy 20."

In response to that finding, the fiscal office has resolved several of the problems by reporting all grants with expenditures on the Schedule of Expenditures of Federal Awards in the proper grant year and utilizing the STARS Grant Activity Report in preparing the Schedules of Expenditures of Federal Awards. However, the fiscal office has yet to comply with the payroll reallocation requirements of Department of Finance and Administration Policy 20.

According to Section 6 of Policy 20, "Executive agencies must utilize the Labor Distribution System to redistribute payroll expenditures (including wages and fringe benefits) to the appropriate grant codes." Based on discussions with agency personnel, the agency does not use the STARS Labor Distribution System to redistribute payroll expenditures. In the previous years, the agency had obtained an exemption from Policy 20 from the Department of Finance and Administration. However, the agency has not received an exemption to Policy 20 since June 30, 2002.

Furthermore, Section 6 of Policy 20 further states, "All grant related expenditure and revenue transactions must be coded with the appropriate grant(s) at the time the initial transaction is recorded." Based on the testwork performed, because staff had not reported several grants and related expenditures on the STARS Grant Activity Report, the grant expenditures were still not coded and recorded correctly in STARS. For the fiscal year ended June 30, 2004, the expenditures for nine grants totaling $504,632.71 did not appear on the Grant Activity Report. For the fiscal year ended June 30, 2005, the expenditures for three grants totaling $1,754,350.00 did not appear on the Grant Activity Report.

Recommendation

The Executive Director should ensure that the agency's Administrative Services Division complies with all of the requirements of Policy 20 or obtain an exemption to Policy 20 from the Department of Finance and Administration. The Administrative Services Division Director should ensure that all grant related expenditures and revenue transactions are coded properly and entered timely into STARS so that information is accurate on the Grant Activity Report. In addition, the Administrative Services Division staff should use the STARS Labor Distribution System to redistribute payroll expenditures.

The Executive Director should ensure that other risks of improper accountability, noncompliance, fraud, waste, or abuse are adequately identified and assessed in management's documented risk assessment. Management should implement effective controls to ensure compliance with applicable requirements and should assign staff to be responsible for ongoing monitoring of the risks and mitigating controls and should take action if deficiencies occur.

Management's Comment

We concur. We have tried to utilize STARS as directed by Policy 20. However, we have not been successful in creating a STARS environment that consistently accumulates all eligible expenditures.

We have brought these issues to the attention of the Enterprise Resources Planning committee, and will pursue this requirement through state's new Edison process.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the agency's June 30, 2005, and June 30, 2004, responsibility letters and December 31, 2003, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated;*
- documentation to support the agency's evaluation of its internal accounting and administrative control was properly maintained; and
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated.*

We reviewed the June 30, 2005, and June 30, 2004, responsibility letters and the December 31, 2003, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. We reviewed documentation to support the agency's evaluation of its internal accounting and administrative control. We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the agency's procedures.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated.*

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

AUDIT COMMITTEE

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;

2. evaluating management's assessment of risk and the agency's system of internal controls;

3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;

4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;

5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and

6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

Subsequent to the completion of fieldwork, the Tennessee Wildlife Resources Commission created a three-member audit committee and developed and approved the audit committee charter. However, the audit committee charter has not been approved by the Comptroller of the Treasury as noted in finding 1. In response to the finding, the audit committee charter was revised and resubmitted. It was approved on July 9, 2007.

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. Tennessee Wildlife Resources Agency filed its compliance reports and implementation plans on June 30, 2003; June 28, 2004; and June 21, 2005.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Tennessee Title VI Compliance Commission is responsible for monitoring and enforcement of Title VI.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Section 4-4-123, *Tennessee Code* Annotated, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30th thereafter. The Tennessee Wildlife Resources Agency filed its compliance reports on July 1, 2003; June 28, 2004; and June 21, 2005.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the Central Office is not in compliance with the federal law.

APPENDIX

ALLOTMENT CODES

Tennessee Wildlife Resources Agency division and allotment codes:

328.01 Tennessee Wildlife Resources Agency
328.02 Boating Safety Act
328.03 Wetlands Acquisition Fund
328.04 Wetlands Compensation Fund